MINUTES OF THE 115th FRAB MEETING HELD ON THURSDAY 7 FEBRUARY 2013 AT THE NAO

Present: Kathryn Cearns (Chairman)

David Aldous	Bob Branson
Andrew Buchanan	Ian Carruthers
Robert Davidson	Gawain Evans
Kathryn Gillatt	Fiona Hamill
David Hobbs	Larry Honeysett
Edward Leigh	Maggie McGhee
Janet Perry	Karen Sanderson
Mike Usher	Aileen Wright (by phone)

Secretariat: Larry Pinkney (Secretary)
Sarah Solomon
Dennis Lu

Guests: Sarah Sheen
Paul Mason

1. Apologies were received from Janet Dougharty, Ron Hodges. Sue Higgins, Roger Marshall and Veronica Poole. Guests at the meeting included Paul Mason and Sarah Sheen (by phone) from CIPFA.

Item 1: Matters Arising

2. The Department of Health provided a brief update on progress with preparation of its 2013-14 NHS Manuals for Accounts. The Department informed the Board that it hoped to be able to present the Manuals at the 4 April FRAB meeting; although it was possible the Manuals could be submitted at a later date. The Board requested that it be kept informed of progress.

3. The Treasury provided a brief update on the impact, as of today, of the subsequent market changes related to its assessment of the year-end general provisions and pensions discount rates, as set at 30 November 2012. The Board thanked the Treasury for its verbal report and requested a more comprehensive update via a paper for consideration at the 4 April FRAB meeting.

Item 2: Update on Whole of Government Accounts (WGA) (FRAB (115)02)

4. The Treasury provided a presentation on progress with its Whole of Government Accounts (WGA). In respect of its 2010-11 WGA, an unaudited summary of the accounts was published in July 2012, followed by publication

of the audited accounts in October 2012. A Public Accounts Committee (PAC) hearing on the 2010-11 WGA took place on 21 January. The PAC supports WGA. It is interested in the information that the accounts provide, e.g. in relation to clinical negligence and nuclear decommissioning provisions, and on debt management, and it is eager to ensure that good use is made of the information contained within WGA.

5. The Treasury confirmed that it is increasing the profile of WGA within the public sector, but that it also intends to increase the profile of WGA more widely. It also reported that it had changed the assurance process for WGA, with a WGA Advisory Group replacing the Treasury Audit Committee.

6. In relation to the 2011-12 WGA, the Treasury had delivered the first complete draft of the accounts to the NAO, except the management commentary and some missing data as a result of the impact of the late receipt of some underlying accounts. The audit of the account is ongoing, with final draft accounts due by Easter. There is also a plan to introduce an even shorter version of the unaudited summary accounts, to make it generally more accessible.

7. For the 2012-13 WGA, the focus is on introducing the Online System for Central Accounting and Reporting (OSCAR), with WGA consolidation due in July 2013. New data collection packs are being introduced, in addition to new guidance for departments. With the introduction of OSCAR, no change to the WGA timetable is expected, and the Treasury will to aim to embed incremental improvements to its internal non-system processes. One further issue for the accounts will be local authority highway infrastructure asset valuations, and the Treasury will take a view on the data once received.

8. Some of the Board raised questions on the testing of OSCAR, and the preparations for training personnel on OSCAR. The Treasury confirmed that testing is expected to be completed by the end of February, with data packs issued in March, and that it was considering the content of the training package, expected to be delivered in May or June.

9. Andrew Buchanan offered his view that what might help in taking WGA forward is looking at the areas of audit qualifications and how they might be dealt with strategically, e.g. the audit qualification related to 3G licenses. He also raised the issue of the audit qualification related to Network Rail being potentially of a long-term nature, and there was also the issue of the exclusion of the Banks. The Treasury confirmed that Bradford and Bingley and Northern Rock Asset management would be included in WGA from 2013-14. It was looking to engage with the WGA Advisory Group to address the audit qualifications issue in the short term.

10. Larry Honeysett questioned whether the introduction of Clear Line of Sight (CLOS) project had made much difference to WGA. The Treasury confirmed that data quality had improved as a result.

11. The Treasury informed the Board it was considering including within the 2011-12 accounts a section related to naming those organisations responsible

for submitting late WGA returns. The Chairman commented that in relation to determining the format of the short summary of WGA, private sector examples may prove helpful.

12. The Chairman thanked the Treasury for the helpful and informative update on WGA.

Item 3: Verbal update on Accounting for Schools (FRAB (115)03)

13. CIPFA provided a verbal update on preparations for the introduction of the Accounting for Schools working group. The Board was informed that Mike Hathorn (an experienced Chairman) had agreed to be Chairman of the new working group. A pre-meeting had been held with Mike Hathorn, when draft papers had been discussed related to the proposed group's terms of reference, group membership, together with background information related to the accounting for school's issue. CIPFA explained that it was refreshing its own working group to be able to feed into the Accounting for Schools working group.

14. The Chairman commented that the Board hoped to see progress on this issue by the April 4 FRAB meeting, to allow consultation on accounting proposals by June or July.

15. David Aldous commented that the reason the CIPFA working group was put on hold was as a result of the Department for Education analysis. Paul Mason conformed that this had not changed significantly.

16. Andrew Buchanan was concerned that the new group ensures a robust technical analysis is carried out. The previous working group had done this, and so this would provide a good starting position for the new group. He explained it was important to identify if there are elements of IFRS 10 that produce differing results from the application of the existing standards.

17. The Chairman confirmed that the Board looks forward to receiving an update on the progress of the Accounting for Schools working group.

Item 4: Verbal update on progress with applying IFRS 13 Fair Value Measurement (FRAB (115)04)

18. The Treasury commenced its verbal update by providing a brief reminder of the proposals contained in its IFRS 13 paper as presented to the Board at its December 2012 meeting. At that meeting, the Board considered that the proposed scope exclusion from the standard was too wide, and that further analysis of the standard was required to determine whether scoping out is required at all. There was also a particular issue of how office buildings would be valued.

19. The Treasury followed this introductory summary with a verbal report on its technical analysis of IFRS 13, including coverage of the valuation methodologies covered by the standard, which are all equally compliant. An explanation was also provided of the three types of input to the valuation

process; level 1 (direct market inputs), level 2 (indirect market inputs) and level 3 (unobservable market inputs). The Treasury informed the Board that although it was working with CIPFA on how the standard might be applied to the public sector, they had not yet reached an agreed approach.

20. The Board debated the valuation of office buildings, including a view by some that office buildings might be of a specialised nature because of their geography or function. An alternative view expressed was that classifying some office buildings as specialised may be a step too far and that key was to look at the nature of the asset, not its location.

21. Ian Carruthers expressed his general concerns over the application of IFRS 13 to the public sector, as it is based on exit values. He considered this approach inconsistent with public sector assets bought for their service potential, and often for a particular location. He encouraged a debate on this issue and he considered that a practical way forward was needed, including consideration of an adaptation of the standard if this is considered appropriate.

22. CIPFA added to Ian Carruther's comments, from the perspective that IFRS 13 has a private sector approach, without consideration of the service potential of an asset. Within local government, authorities have therefore generally not valued at 'highest and best use' and have used depreciated replacement cost to provide an existing use value for specialised assets. It particularly wants to be able to provide clear guidance on the application of IFRS 13 to its local authority practitioners.

23. Karen Sanderson made clear that the Treasury had focused on the analysis of the Standard to understand fully its requirements, and before coming to firm views about applying the standard to central government. The Chairman agreed that this initial analysis is what is required and that the process of applying standards could not be cut short. She raised the issue that a contributing factor stems from the public sector choosing to revalue its assets, and asked what the rationale was that lay behind this decision. Ian Carruthers commented that long-life assets are one of the key drivers. Gawain Evans remarked on the many specialised assets in the Ministry of Defence.

24. The Chairman commented that at one end of the asset scale there are specialised assets and at the other end of the scale there are assets where exit price or market price might be applied and alternative use is clear. The problem arises for those assets falling between the two ends of the scale. She posed the question as to whether the question of stewardship might be considered in driving whether the service potential of an asset, or its highest and best use was most appropriate for reporting.

25. Andrew Buchanan disagreed with views expressed that exit price applies only to the private sector that sells up its assets. He considered that the focus should be on the accountability and value of the assets held, and that in this context, there was no distinction between the private and public sectors. The principle is one of accountability. He remained unconvinced that a public

sector building had to be in a specific location, if, for example, savings could be generated by its re-location. He added that fair value is to demonstrate the value of assets under management, i.e. what the asset is worth on the open market, and that what is needed is an analysis of applying the standard in practice.

26. Ian Carruthers agreed that in the private sector this might be a sound argument, but, in practical terms, in the public sector service configuration can be incredibly difficult to achieve. He added that the reality is that public sector assets are not generally used to make a financial gain, but are used to deliver public services. He gave the example of social housing, where open market value is not a relevant valuation basis because a policy decision has been taken that affordable housing is required in that area.

27. Fiona Hamill agreed with Andrew Buchanan, related to identifying the opportunity cost of an asset, which then facilitates management decision-making.

28. The Chairman summarised the lengthy discussion. Although not coming to any decision today on the application of the standard, it was confirmed that:

- Helpful work had been completed, which provided a better understanding of the standard and its implications for the public sector;
- The Treasury and CIPFA had confirmed their intention to defer the application of the standard until 2014-15;
- Work on the issue should continue, and that a combined Treasury/CIPFA paper should be circulated to the Board, which brings together the views from central and local government. This should include analysis by asset category, covering the current accounting treatment compared to applying IFRS 13 in full, and explaining the consequential impacts;
- Parliament's views should be obtained on the accountability point, via Larry Honeysett;
- A more informed debate on IFRS 13 will take place at the next FRAB meeting, on the 4 April.

Item 5: NHS Foundation Trust Annual Reporting Manual 2012-13 and 2013-14 (FRAB (115)05)

29. Monitor requested the Board to note the results of its consultation on its 2012-13 Foundation Trust Annual Reporting Manual (FT ARM), and also requested the Board to approve the list of amendments and divergences, and accordingly, approve the FT ARM financial chapters for 2013-14 for issue to consultation.

30. Monitor informed the Board that its consultation on the 2012-13 FT ARM had not led to any substantial changes to the version previously seen by the Board. It also confirmed that no new divergences were proposed in respect of the 2013-14 FT ARM.

31. The Board raised several minor points of detail related to the 2013-14 manual, including related to the consolidation of charitable funds, and it advised that IFRS 13 should be added back to the list of standards issued, but not yet adopted within the Manual.

32. The Board sought confirmation on how it would be informed of the results of the consultation related to the 2013-14 FT ARM. Monitor responded that results would not be available by the April FRAB meeting, however it confirmed that it would circulate the consultation details to the Board as it was issued, and share a summary of the results as soon as they become available.

33. The Chairman requested that Monitor check for any issues coming from the issue of the 2013-14 NHS Manuals for Account that may impact on the 2013-14 FT ARM. Monitor confirmed this would be done and, if necessary, its own consultation would be amended.

34. Subject to the changes discussed at the meeting, the Board approved the 2013-14 FT ARM financial chapters for consultation and the list of divergences.

Item 6: Code of Practice on Local Authority Accounting (FRAB (115)06)

35. CIPFA requested the Board to confirm it is content with its proposed update to the 2013-14 Code, principally in relation to accounting for business rate retention and the deferral of the application of IFRS 13, until 2014-15.

36. CIPFA informed the Board that the consultation remained open with local authorities in respect of the proposed changes to the Code, and that the changes would be subject to CIPFA/LASAAC approval at its meeting in early March.

37. The Board confirmed it was content with the proposed changes, and also with CIPFA's proposal that any further significant changes as a result of the consultation would be circulated to the Board by email. Any final consequential changes arising from that process would be delegated to the FRAB Chairman.

Item 7: FRAB Report 2012-13 (FRAB (115)07)

38. The Board considered and agreed the proposed plan and timetable for the production and publication of its 2012-13 report. It also considered what additional items might be included in the report, over and above those included in the initial draft report. The Chairman called for volunteers to be part of the FRAB report writing group.

39. Andrew Buchanan and Maggie McGhee volunteered to assist with the completion and finalisation of the report, in addition to the FRAB Chairman and Secretary.

40. Suggestions for inclusion in the report included clarity in financial reporting as a future issue to be considered by the Board, a section on Eurostat, the impact of the review of FRAB and the changes made, and the results of the second year of implementation of IFRS in local government.

Item 8: FRAB working practices (FRAB (115)08)

41. The Chairman opened a principled-based discussion on FRAB working practices. The two main drivers for change came from the need to operate more efficiently on arriving at views on new standards (i.e. finding better ways of doing things), combined with future pressures on those resources available to support the FRAB. She also expressed the need to drive towards getting all the Relevant Authority accounting manuals issued on time, and to ensure the timely application of new standards.

42. The Chairman suggested that whilst there is currently a well-balanced system, which the Board did not want to upset, there is, nevertheless, room for improvement. It was suggested that additional technical accounting resource could be made available e.g. from the big accounting firms, which could bring their considerable resources and expertise to bear to assist the Relevant Authorities with their initial stage 1 technical analysis of standards. The Chairman also covered the issue of the potential reduction in the frequency of FRAB meetings, which would require more frequent and effective communication between meetings. The Chairman suggested that a paper be provided for the Relevant Authorities to enable them to consider these issues.

43. The Treasury explained that as a result of a reduction in its resources, there has been restructuring and re-deployment of its remaining resources, which results in the need to work in a more structured and disciplined fashion, including those work areas related to the FRAB, but without losing what FRAB is and what it achieves.

44. Edward Leigh questioned whether the drive for change was to save money or make FRAB better. The Chairman confirmed it was a combination of the two, not only to provide access to expertise from technical departments, but also to improve existing process and make it more efficient.

45. Aileen Wright confirmed she was content to take part in discussions on this issue. Ian Carruthers agreed with Aileen, adding that it was right to address the resourcing issue. Some accounting standards were clear, but some have grey areas, and bringing in technical assistance without impairing the independence of the FRAB would prove helpful to the Relevant Authorities, which are required to make judgements on the standards before taking proposals to FRAB, which brings the element of challenge.

46. Edward Leigh commented that parliament would seek assurance that the process of developing financial reporting proposals in the public sector will continue to be done well.

47. Fiona Hamill agreed that discussion of the issues is required by the Relevant Authorities, but suggested that the resourcing of the FRAB, and the need to be more effective, could be de-coupled. The Chairman suggested the Relevant Authorities can discuss this particular issue, but expressed the desire for rapid progress to be made. It is hoped that by the May FRAB meeting the Relevant Authorities will have come to an agreed position on proposals for change.

48. Bob Branson agreed that the current process could be improved, but aired concern over a potential mob-handed approach regarding the additional technical provision. With a reduction in the number of meetings, these would have to be absolutely right. He expressed the need for a clear action plan to achieve greater efficiency.

49. Janet Perry expressed the view that the two drivers for change which were under discussion go together.

50. David Hobbs agreed with Bob Branson, and highlighted the need for FRAB to be informed of any technical analysis provided to the Relevant Authorities, emphasising the importance of ensuring that the FRAB's independence is not undermined.

51. Kathy Gillatt welcomed the proposed technical approach, but observed the need to work out the consequences of a revised approach, e.g. the implementation and timing aspects. Resources would need to be appropriate and she considered that the frequency of FRAB meetings may need to be flexible. Larry Honeysett asked how fixed meetings would cope with standards if they come at different times. It was suggested this should not be an issue given that FRAB meetings are currently fixed, and because of the advance warning provided by the standard setters when introducing standards.

52. The Treasury confirmed that it was looking at credible options for the FRAB to do its job, but in a better way. It may look at resources again, but the key was the need to work more efficiently.

53. Maggie McGhee supported the addition technical input proposed. She considered that additional resources might be required in introducing the revised approach.

54. Robert Davidson agreed that the additional technical input was the right way forward, and a new more efficient mode of working was needed, with more work conducted electronically.

55. Andrew Buchanan confirmed that the proposals were about working more effectively in addition to making savings, and that more effective communication would be required, much of it via electronic means. He also

considered that a flexible approach may be needed in terms of the number of FRAB meetings, in case a fourth meeting was required in-year. He also thought that the forward timetable would have to be very well structured.

56. The Chairman brought the discussion to a close, requesting the Relevant Authorities to meet as soon as practicable to discuss the proposals for revising FRAB working practices. She agreed to contribute to the paper to be provided to the Relevant Authorities to aid their discussion. She encouraged early progress on this issue, and confirmed that there would be a more informed debate on it at the April FRAB meeting.

Item 9: Forward Work Programme (FRAB (115)09)

57. The Board discussed its forward work programme and suggested some changes. For the April FRAB meeting, it was agreed that agenda items would be added for an IFRS 13 update and for a FRAB working practices paper. The IFRS 9 items on the work programme would be moved to the November meeting agenda. Revenue recognition would be considered at the first FRAB meeting in 2014.

58. The Board also agreed that it would set aside time to consider the future format of its work programme

Any Other Business

59. The Chairman informed the Board that this was the last meeting attended by the current FRAB Secretary and Sarah Solomon. She expressed her thanks for their contribution to the Board over several years. In particular, she thanked Larry Pinkney for his long and invaluable support for both herself and the previous Chairman and wished Larry a very happy retirement. The Chairman welcomed Dennis Lu to the FRAB secretariat and informed the Board that Phil Trotter would assume the FRAB Secretary role from the next meeting.

Dates of Next Meeting

60. The next FRAB meeting is on 4 April 2013.